

# IASB Conceptual Framework

The Conceptual Framework for Financial Reporting is currently as follows:

**Chapter 1:** The objective of general purpose financial reporting

**Chapter 2:** The reporting entity (*to be issued*)

**Chapter 3:** Qualitative characteristics of useful financial information

**Chapter 4:** Remaining text of the 1989 Framework:

- Underlying assumption
- The elements of financial statements
- Recognition of the elements of financial statements
- Measurement of the elements of financial statements
- Concepts of capital and capital maintenance

The purposes of The Conceptual Framework:

- (1) To assist the **IASB** in the development of future IFRSs, promoting harmonisation of regulations and accounting standards.
- (2) To assist **national standard-setting bodies** in developing national standards.
- (3) To assist **preparers** of F/S in applying IFRSs.
- (4) To assist **auditors** in forming an opinion on F/S compliance with IFRS
- (5) To assist **users** of financial statements in interpreting the information.

**Chapter 1: The objective of general purpose financial reporting:**

Providing Financial Information  
about the reporting entity

These users need information about:

To Users

Decisions  
Making

Existing and potential investors,  
lenders and other creditors.

The Conceptual Framework makes it clear  
that this information should be prepared on  
an accruals basis

**Chapter 3: Qualitative characteristics of useful financial information**

## DECISION-USEFULNESS

(1) Fundamental Qualities:

(A) Relevance

Predictive

\* Productive Value

\* Conformity Value

\* Materiality

(B) Faithful Representation

\* Completeness

\* Naturality

\* Free from Error

(2) Enhancing Qualities:

(A) Comparability

(B) Verifiability

(C) Timeliness

(D) Understandability

CONSTRAINT → COST

**Chapter 4: Underlying Assumption**

It is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.



Now



Future

**Chapter 4: Elements of F/S**

Financial Position

Financial Performance

Assets

① Future Benefits

② Controlled

③ Past Event

Income  
"Revenue &  
Gains"

↑ (Increase) Assets

↓ (Reduction) Liab.

Liabilities

① Future Settlement

② Present Obligation

③ Past Event

Expenses  
"Expenses &  
Loss"

↑ (Increase) Liab.

↓ (Reduction) Assets

Equity

Assets — Liabilities  
= Net Assets

**Chapter 4: Recognition of Elements of F/S**

Incorporating an item into F/S if it meets the definition of an element & satisfies the following criteria for recognition:

It is probable that  
any future  
economic benefit  
associated with the  
item will flow to or  
from the entity

The item has a cost  
or value that can be  
measured with  
reliability

**Chapter 4: Measurement of Elements of F/S**

Determining the monetary amounts at which the elements of the financial statements are to be recognised:

Historical cost

Current cost

Realisable (settlement) value

Present value

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